

ROYAL HOST

2000 ANNUAL REPORT

FOCUSED PEOPLE + STREAMLINED OPERATIONS = STRONG RESULTS

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Our Mission: To provide the highest sustainable value (distributions and capital gains) to investors by achieving industry-leading profits in hotel management, franchising and ownership, and in vacation ownership.

Who we are and how we succeed: Royal Host is a superior hotel owner, management and franchise company that is committed to enhancing its leadership in the hospitality and travel service industries through tightly focused strategic initiatives.

HIGHLIGHTS OF THE YEAR

- Increased revenues by 8.7% which exceeded industry performance in Canada
- Increased Cash Available for Distribution by 20.4%
- Increased RevPAR (revenue per available room) by 7.1% and Average Daily Rate (ADR) by 5.4%
- Reduced the Company's overall cost structure
- Concluded negotiations on a substantial portion of long-term debt maturing in 2000 resulting in lower costs, fixed interest rates and diverse debt maturity dates
- Paid cash distributions of 96 cents per unit (of which 62.5% was tax deferred) yielding a return of 16.6% based on an average trading price of \$5.79
- Overall, during 2000 our unitholders experienced the highest return of any Canadian REIT – a total of 34% including both cash distributions and market appreciation of Royal Host units.

Highlights of the Year

FINANCIAL HIGHLIGHTS

	<i>(in \$000s except per unit amounts)</i>		
As at December 31,	2000	1999	1998
Total hospitality revenues	140,879	129,570	78,012
Operating income	44,735	39,978	24,925
Cash available for distribution	28,184	23,414	18,342
Per unit cash available for distribution (basic)	\$1.15	\$1.02	\$0.93
Capital assets (gross book value)	384,181	377,611	345,940
Mortgages and other debt	158,853	153,913	139,397

OPERATING RESULTS





FOCUSED PEOPLE + STREAMLINED OPERATIONS = STRONG RESULTS

MESSAGE TO OUR UNITHOLDERS

[During 2000, we delivered outstanding performance as indicated by our operating and financial results. Indeed, we out-performed our industry and most of our competitors.]

The team at Royal Host is very proud of the success achieved during 2000. Many of our strategic initiatives matured during the past year to generate intended results. In concert with a favourable economic climate for the hotel industry, we delivered outstanding performance as indicated by our operating and financial results. Indeed, during 2000, we out-performed our industry and most of our competitors.

This is a good time to own hotels in Canada as the hotel industry is maturing. In contrast to the high-growth of supply in the early 1990's, growth in new hotel rooms is expected to be less than 1% during 2001. With limited financing available for new hotel construction, and improved market information, growth in the number of hotel rooms in the Canadian market is expected to remain moderate in the foreseeable future.

Since new supply is the greatest determinant of occupancy and room rental rates, hotel operators are enjoying a more mature and stable hotel industry. We believe the investment community has yet to recognize the additional value within our industry due to the stable supply-demand balance and industry maturity.

Portfolio Stability – Management and Ownership

Royal Host believes in having a diversified income portfolio that directly reflects the Canadian hotel market in order to provide our unitholders with stable earnings and equity growth. Our portfolio diversification works on several levels, including geography, property types, revenue streams and demand generators. For example, our diversified revenue streams include both hotel ownership and management, which in turn includes franchise operations and timeshare. Demand generator diversification is another example of our portfolio approach that reduces unitholder risk by targeting business, vacation and several other travel segments.

As hotel demand in Canada is solidly in the mid-market (there are very few markets that can support luxury hotels), our assets are designed to span the mid-market. Moreover, our diversification will also serve Royal Host well during economic downturns, as Canadian travellers tend to convert from business travellers to vacation travellers during slowdowns. Also while foreign travel is volatile due to economic cycles, Canadian travellers tend to stay at home.

Another key part of our portfolio approach is improving the quality of the holdings, which in our view is based on each individual hotel's ability to generate long-term, stable profitability. A hotel achieves this by being the preferred hotel in its local market – or being the "market leader". Over half of our hotels are in the "market leader" category, and we are aspiring to improve that ratio.

Randy Royer
President & Chief Executive Officer
Royal Host



Right People with Right Skills and Right Motivation

The second part of our strategy is to focus on strengthening our team. Our employees are our single most important asset and our competitive advantage. They transform our "bricks and mortar" portfolio of hotels into hospitality experiences for our guests, which translates into financial returns for our unitholders.

The Royal Host team is capable, motivated and entrepreneurial. While our success begins with hiring exceptional people, much credit is due also to our extensive skills development program. In addition, during 2000, our operational structures have been streamlined and staff has been empowered to deliver superior services.

Ownership by key staff is a powerful motivator as it aligns the interests of staff and management with unitholders. I am pleased to report that over 80% of eligible staff have chosen to participate in our unit ownership program that was launched during 2000. Moreover, the senior management and principals of Royal Host currently own approximately 14% of the REIT. It is the dynamic combination of the right assets and the right people that has allowed Royal Host to improve its performance significantly.

Strong Results

By all measurements Royal Host excelled in 2000. Both RevPAR (revenue per available room) and operating margin improvements are key indicators of our strength. How was this accomplished?

First, we completed a "top-to-bottom" restructuring of the organization in January 2000. Second, we re-focused on our key activities – ownership and management of hotels. Thirdly, both decision making and the organization were streamlined thereby allowing our staff to flourish in their roles.

The strength built this year will position us well for the future and will be augmented by our expectations of a continuing strong industry. Hence, we will continue on our course of asset diversification with ongoing investment in our team while striving to unlock hidden value in our assets.

Investors have noticed our success. During 2000, our unitholders experienced the highest return of any Canadian REIT – 34.4%* total return consisting of both cash distributions and capital gains. Our units had also experienced some of the highest trading volumes of TSE-listed REITs.

Our team is especially proud of our key operating and financial indicators – among these:

- **RevPAR (revenue per available room)** – up by 7.1% to \$57.30
- **Average Daily Rate (ADR)** – up by 5.4% to \$84.51
- **Occupancy** – up 1.6% points to 67.8%
- **Revenues** increased by 8.7% which is among the highest in hotel industry performance in Canada
- **Cash Available for Distribution** increased by 20.4% from \$23.4 million in 1999 to \$28.1 million in 2000

Equally significant is that our team also reduced our cost structure during 2000, while at the same time improving operating efficiencies.

Finally, we completed the successful refinancing of \$98 million of existing long term debt, in a very challenging debt market, which was replaced by \$105 million of new debt. The key result is that we have reduced financial risk to unitholders by diversifying debt maturities across several years and converting a substantial portion of our debt from floating to fixed interest rates. In the early part of 2001, we issued trust units to raise \$20 million for capital improvements and general corporate purposes which will serve to further improve our balance sheet in 2001.

Improving Our Performance

We believe that strategic programs implemented during 2000 will continue to enhance the value creation that has been experienced to-date within our hotel and head office operations.

* BMO Nesbitt Burns Equity Research

At the hotel level the following programs will continue to deliver value for unitholders:

- \$52 million hotel investment program started 3 years ago has enhanced the positioning of our properties within their local hotel markets
- continuation of extensive staff training programs started 2 years ago is returning significant payback
- strong focus on productivity – including productivity targets and measurement processes
- aggressive marketing programs in place for each hotel property
- subsequent to year end raised an additional \$20 million of equity to further enhance our hotels' ability to contribute to our future performance

Also during 2000, we completed the merger of the three operating entities into one. This resulted in reduced staff levels and other reduced costs while streamlining decision making and completing the transition to a fully integrated public entity. Lastly, our management information system became fully operational during 2000, allowing our team to monitor hotel performance by property and to quickly make competitive adjustments within each local hotel market. The internal streamlining process did incur some one-time costs during 2000. We believe this was a necessary strategic investment that will provide more paybacks during 2001 and beyond.

Outlook – Attractive Growth Opportunities Remain

Right Assets with Growth Potential

We are proud of our results for 2000, and believe the full potential of our portfolio has yet to be fully realized. Royal Host plans to deliver more value to our unitholders by leveraging the existing assets and helping our people to achieve even higher levels of performance. We expect to accomplish this in a variety of ways.

First, we intend to continue being an efficient hotel operator aggressively pursuing market leadership in each local hotel market, while our ongoing marketing programs and cost-control systems are expected to further enhance the returns achieved during 2000.

Second, Royal Host will continue to actively seek joint venture investments in hotel properties where we will also manage the property. We have a proven record of success in operating hotel properties for others. The Company intends to use this enviable record and reputation to win additional management contracts, which generate high margin returns for unitholders without a significant investment of capital.

A third key growth opportunity is the unrealized real estate potential associated with many of our existing hotels. We are exploring opportunities to add room capacity to existing properties thereby creating additional revenues with a minimal increase in operating costs.

Summary

We celebrate our accomplishments in 2000 and welcome the challenges of the future. The outstanding team and strategic initiatives of the past couple of years delivered our best-ever operating and financial performance to Royal Host unitholders, while generating a much-improved cash flow. These assets and operating principles will continue to propel our REIT to greater strengths in the future.

On behalf of our unitholders, I want to extend my congratulations and thanks to our employees for the results we achieved together last year, and to thank our customers, and our Board of Trustees for their ongoing support.

As signed by:

Randy B. Royer

President and CEO

April 16, 2001



FOCUSED ON LOCAL LEADERSHIP WITHIN THE MID-MARKET

MANAGING A DIVERSIFIED PORTFOLIO OF HOTEL ASSETS

[Royal Host is a quality market player and

maintains this position by local market

leadership on a property-by-property basis.]

Royal Host is a real estate investment trust (REIT) whose core business is owning and managing a diversified national portfolio of hotel properties. The focus of the Company is on the mid-market which is the largest segment of the hotel room market in Canada. Royal Host is a quality market player and maintains this position by local market leadership on a property-by-property basis. The Royal Host team performs ongoing operating reviews, which enables its hotels to quickly adjust competitively to local market conditions.

Royal Host has built a balanced, well-diversified portfolio of hotel property ownership and management that provide a stable income stream with attractive capital appreciation potential for unitholders.

Royal Host measures its portfolio diversity by several dimensions:

- **geography** – 36 properties in the most attractive markets across Canada
- **property types** – hotel properties operated range from "limited service" to "luxury" with several hotel brands represented: Hilton, The Grand Okanagan, Travelodge, Holiday Inn, Country Inn, and Super 8
- **revenue streams** – hotel ownership, operating hotels for third parties, hotel franchise fees, and vacation timeshare
- **demand generators** – key examples include business and leisure travel, incentive travel, meetings markets, corporate volume accounts, low-season and weekend specials, and tour travel

Performance Enhanced

Royal Host's single, and most important asset, which works to strengthen our competitive advantage, is our team of 2,000 core employees who are empowered to transform our physical assets into pleasant hospitality experiences for our guests. Their results during 2000 are commendable and we dedicate this annual report to our people for that achievement.

Operations Streamlined

Royal Host streamlined internally and sharpened its focus on efficiency by better aligning employees with our mission, both within each hotel property and at head office. We reviewed the core skills needed, and set clear priorities for all departments.

Noel Dickson

Executive Vice President, Operations



The review of head office also identified opportunities to reduce staffing levels, as Royal Host completed its transition to a fully integrated public entity. The internal streamlining process generated some one-time costs during 2000. We believe this was a key and necessary strategic investment with paybacks already realized in 2000, and with more benefits to come. The result is a leaner, flatter and more effective and efficient Royal Host organization with enhanced growth prospects.

Royal Host has had a long-standing commitment to continuous improvement. As part of this process, Royal Host hotels are reviewed on a regular basis to monitor performance and to ensure that our internal "best practices" are followed. Suggestions from staff are an important source of ideas that continuously improve our pool of "best practices".

After emerging from the challenges of the Y2K transition last year, Royal Host completed the installation of the Royal Host integrated hotel management (RMI) system. RMI links and integrates all aspects of our operations: communications, analysis, scheduling and forecasting. The benefits of the system came on stream during 2000, enabling management to track daily key performance indicators by hotel, including occupancy rate, RevPAR, labor costs and productivity. RMI is proving to be a powerful management tool. For example, variances from expected performance are flagged early, making it possible for the Company to respond quickly and with precision to any changes in local market conditions or input costs.

Our Core Strategy - People

Royal Host's single most important accomplishment during the year 2000 was the re-alignment of its human capital. With the help of external specialists, Royal Host management reviewed the entire company to streamline operations across all hotels.

The goal was to empower staff to deliver best-in-class hotel services – and we succeeded. Operating results for 2000 speak eloquently about the positive impact of this investment.

Not surprisingly, one outcome of the review was to strengthen the Company's commitment to our investment in human capital. Royal Host unitholders own a high-quality pool of intellectual property that is not recognized under the current accounting rules. It is due to this investment that the organization is efficiently converting human capital into positive operating and financial results.



Using its considerable in-house training expertise, Royal Host is Canada's leader in staff development within the hotel industry. Royal Host's objective is to have its key personnel attend all core in-house programs such as hiring skills and appraisal, train the trainer, yield management, leadership, selling, front desk computer systems and financial operations. The course attendees are mainly General Managers and Heads of Departments from all hotel properties, who in turn disseminate their knowledge and skills to their staff.

Here are some statistics on Royal Host's training program:

- 55 programs delivered in total covering Eastern Canada, Western Canada and the United States
- Locations and attendees:

Eastern Canada (Toronto)	320 attendees
Western Canada (Edmonton)	329 attendees
United States (Seattle)	208 attendees
Total attendees	857
Total number of training hours	6,500
Total training days	70

Royal Host is recognized throughout the industry as an efficient hotel operator. Our well-earned reputation has helped the Company attract a number of management contracts to operate hotels on behalf of third parties. This is an attractive, high-margin business segment for Royal Host that requires no additional capital investment and leverages our current systems with compelling economies of scale.

[Using its considerable in-house training expertise, Royal Host is Canada's leader in staff development within the hotel industry.]

Sun Wadland
Vice President, Human Resources



Employee Investors

Employee ownership typically increases staff motivation and creates alignment with unitholders' interests. With this in mind, Royal Host launched an ownership incentive program during the year. Key employees can now acquire Royal Host units that are matched by the Company on a one-to-one basis, with an additional incentive provided by a loan program. Over 80% of eligible key employees currently participate in the unit ownership program.

People and Marketing

Our marketing program was among the several initiatives that began generating results for us during 2000. The key elements include revenue management, matrix sales, channel management, and customer relationship management.

- **Revenue Management** – Also known as yield management, this initiative is focused on maximizing revenue per available room. Hotel accommodation is a perishable commodity. Once lost, the opportunity to make revenue from an unsold hotel room is lost forever. This program enables Royal Host to sell the right room, to the right customer, at the right time – and for the right price.
- **Matrix Sales** – This system helped the Company consolidate its sales force across vertical and geographic markets to enhance sales efficiency company-wide. In particular, Royal Host enhanced its revenues in key properties by using its vertical market expertise in tour travel, consortia, incentive travel, meetings markets, and corporate volume accounts.
- **Channel Management** – Royal Host identified the main sources of its guests and then focused on stimulating new and existing distribution channels – such as global distribution systems (GDS), internet distribution systems (IDS), central reservation services (CRS), and voice-based reservations. Channel stimulation campaigns resulted in large increases in reservations across all hotel brands and channels.
- **Customer Relationship Management** – Sales staff identified and focused on Royal Host's largest and most profitable accounts to retain and grow account volumes.



Finally, during 2000 Royal Host also launched a development and retention program for its key sales staff, as well as adding capabilities to in-house marketing and creative services. This enabled the marketing group to design and produce brochures and advertising at a lower cost with a consistent "look and feel" for all Royal Host owned and managed properties.

[Royal Host has industry-recognized pool of hotel management expertise with a strong track record of managing hotel properties for others.]



Terrance Royer
Executive Vice Chairman



Expertise Recognized within the Hotel Industry

Royal Host currently manages 27 hotel properties for third parties located in Alaska, Washington and Oregon under long-term contracts, which give Royal Host unitholders attractive returns without capital investments.

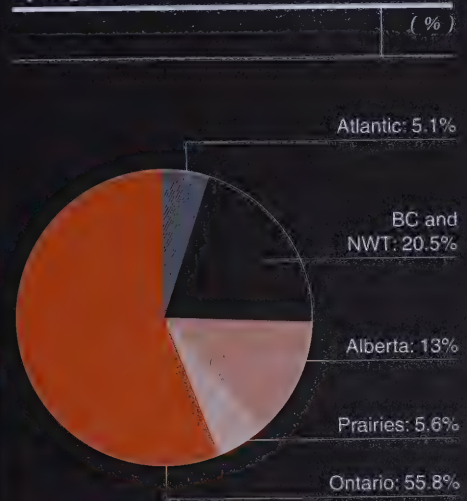
Here is why the Company wins the trust of third parties to operate their hotel properties:

- **Intellectual capital** – Royal Host has an industry-recognized pool of hotel management expertise with a strong track record of successfully managing hotel properties for others.
- **Diversity of Royal Host hotel experience** – The Company operates a variety of hotel properties ranging from "limited service" to "luxury" – and can also offer valuable vacation resort management experience for timeshare owners.
- **Proven in-place hotel systems** – Royal Host knows hotel marketing, sales, training, operations and revenue management, and the Company can quickly integrate new hotels into its proven system.

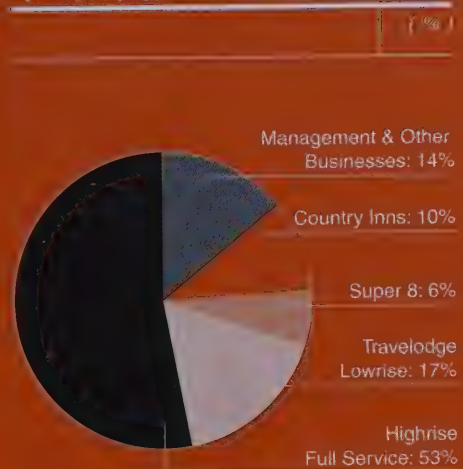




Investment in Properties by Region



Operating Income by Property Type



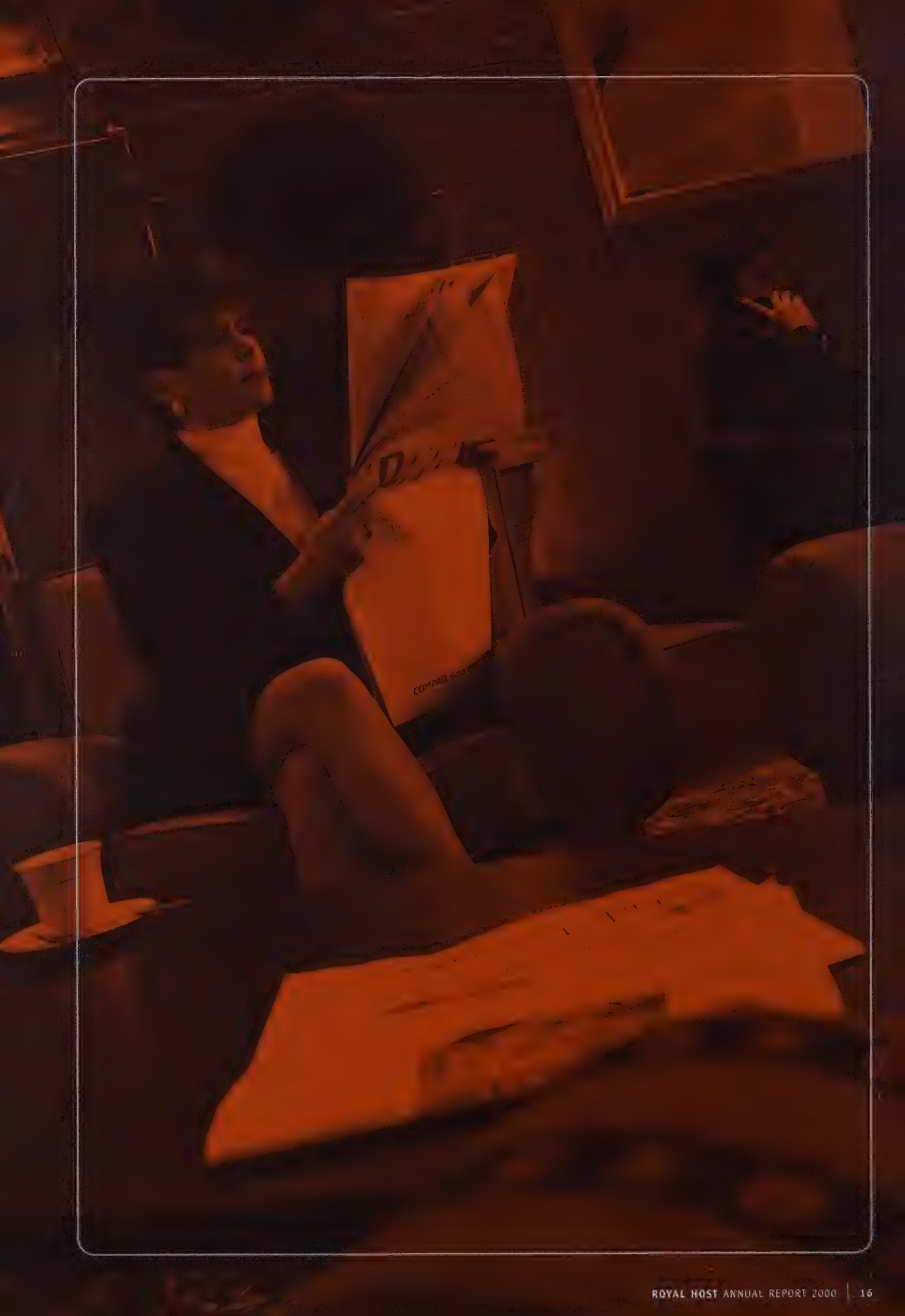
ROYAL HOST PROPERTIES

- Royal Host Owned Locations
- ▲ Third Party Management Contracts
- Royal Host Franchises



<p>British Columbia</p> <p>Kelowna The Grand Okanagan Resort Lake Okanagan Houseboats</p> <p>Fort Nelson Travelodge</p> <p>Sicamous Shuswap Lake Houseboats</p> <p>Alberta</p> <p>Banff Banff Rocky Mountain Resort</p> <p>Brooks Super 8</p> <p>Medicine Hat Travelodge</p> <p>Lethbridge Super 8 Travelodge Hotel & Conference Centre</p> <p>Red Deer Super 8 Travelodge</p> <p>Stony Plain Travelodge</p> <p>Fort McMurray Super 8</p> <p>Drayton Valley Super 8</p> <p>Edmonton Holiday Inn (The Palace)</p> <p>Saskatchewan</p> <p>Regina Country Inn & Suites By Carlson Super 8</p> <p>North Battleford Super 8</p> <p>Saskatoon Country Inn & Suites By Carlson</p> <p>Manitoba</p> <p>Winnipeg Country Inn & Suites By Carlson</p> <p>Ontario</p> <p>Thunder Bay Travelodge Travelodge Hotel (Airlane)</p>	<p>Timmins Super 8 Travelodge</p> <p>Sudbury Super 8</p> <p>Thornbury Royal Harbour Resort Grey Condo Corporation No. 13</p> <p>Orillia Travelodge Hotel Orillia</p> <p>North Bay Travelodge Lakeshore</p> <p>Barrie Travelodge Travelodge Barrie on Bayfield</p> <p>Windsor Travelodge Windsor Ambassador Bridge</p> <p>London Hilton Travelodge London South</p> <p>Chatham Travelodge</p> <p>Burlington Travelodge Hotel Burlington on the Lake</p> <p>Woodstock Super 8</p> <p>Oakville Holiday Inn</p> <p>Toronto Travelodge Hotel Toronto Airport (Dixon Road) Triumph Howard Johnson*</p> <p>Ottawa Chimo Hotel Travelodge Ottawa West</p> <p>New Brunswick</p> <p>Moncton Country Inn & Suites By Carlson</p> <p>Saint John Country Inn & Suites By Carlson</p> <p>Nova Scotia</p> <p>Dartmouth Country Inn & Suites By Carlson</p> <p>New Glasgow Country Inn & Suites By Carlson</p>	<p>Northwest Territories</p> <p>Yellowknife Yellowknife Inn</p> <p>Mexico</p> <p>Cabo San Lucas Las Ventanas de Cabo</p> <p>Oklahoma</p> <p>Lake Eufaula Evergreen Marina (Houseboats)</p> <p>Florida</p> <p>St. John's River Holly Bluff Marina (Houseboats)</p> <p>Alaska (Super 8 locations)</p> <p>Anchorage</p> <p>Fairbanks</p> <p>Juneau</p> <p>Ketchikan</p> <p>Washington (Super 8 locations)</p> <p>Bremerton</p> <p>Ellensburg</p> <p>Federal Way</p> <p>Ferndale</p> <p>Kelso</p> <p>Kennewick</p> <p>Lacey</p> <p>Moses Lake</p> <p>Port Angeles</p> <p>Sea-Tac</p> <p>Walla Walla</p> <p>Yakima</p> <p>Oregon (Super 8 locations)</p> <p>Ashland</p> <p>Bend</p> <p>Corvallis</p> <p>Grants Pass</p> <p>Klamath Falls</p> <p>Portland</p> <p>Redmond</p> <p>Roseburg</p> <p>Salem</p> <p>Wilsonville</p> <p>Woodburn</p>
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● Royal Host Owned Locations ▲ Third Party Management Contracts ■ Royal Host Franchises * 50% Co-tenancy



Whereas 1999 was a year for investing in our hotel properties, 2000 was a year to drive the return on the property investments.

Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") is an unincorporated "closed-end" trust governed by the laws of the Province of Alberta and constituted pursuant to a Declaration of Trust dated August 27, 1997.

Overview of Business

Throughout 2000, Royal Host has emphasized consistent themes in its quarterly reports to unitholders:

- focusing on maximizing the potential of the existing hotel portfolio
- diversifying revenue by expanding the business mix
- continuing to drive improvements and operating efficiencies
- managing our corporate debt

Core Business:

Whereas 1999 was a year for investing in our hotel properties, 2000 was a year to drive the return on the property investments. The impact of this focus is demonstrated in the overall growth in revenues and cash available for distribution. We used this year to continue to implement efficient management processes in the hotels, streamline operations, and focus on cost control and operational efficiencies. Furthermore, we completed renovation programs on time and on budget and repositioned properties, making it possible to drive room rates, which improved hospitality revenues. The growth in hospitality revenues reflects the Company's long-term investment in our foundation of capital assets.

Expanding the Business Mix:

Royal Host owns a hotel management company with over 25 years of hospitality experience, as well as the Travelodge master franchise for Canada and one of the largest vacation ownership programs in the country. These businesses offer diversified revenue streams that continue to provide significant potential for future growth. Royal Host is unique among Canadian hotel REITs due to this diversification of its business mix.

New Growth Opportunities:

Management's goals for 2001 and the future include enhancing unitholder value by maximizing core strengths. In 2000, the company linked the front office systems with the management reporting system to provide comprehensive and timely information to hotel managers, thereby enabling them to better control costs and revenues at the hotels and drive profitability. These efficiencies played

Peter Sikora
Chief Financial Officer
Royal Host



a significant roll in improving operating income by \$4.8 million. With this management information system, we are in a better position to pursue additional hotel management opportunities with hotel owners throughout North America, similar to our existing management contract for 27 hotels in the northwestern United States.

Results of Operations

During 2000, the Company has increased revenues by \$11.3 million year over year. This increase is the result of well-focused sales and marketing efforts and returns on our extensive renovation and expansion programs.

Cash Available for Distribution to Unitholders

Year over year, cash available for distribution improved 20.4% to \$28,184,000 (in 2000), from \$23,414,000 (in 1999). Declared distributions to unitholders (including distributions on redeemable partnership units) were \$22,482,000. Therefore, after deducting interest payments on convertible debentures, of \$1,760,000, Royal Host's payout ratio was a very respectable 85%. Basic per unit cash available for distribution increased to \$1.15 from \$1.02 in the prior year.

In 2000, Royal Host declared distributions of \$0.96 per unit to unitholders. At an average trading price for the year of \$5.79 per unit, these distributions resulted in a yield of 16.6%. These distributions were only 37.5% taxable in 2000, with the remaining 62.5% being a tax deferred return of capital. While the hospitality industry can be highly seasonal, Royal Host seeks to maintain stable distributions to its unitholders throughout the year.

Revenues, Average Daily Room Rates and Revenue per Available Room

Royal Host derives its revenues from the following activities: ownership of hotel properties, management contracts, franchise fees and vacation ownership sales. Total revenues increased 8.7% in the year, from \$129,570,000 in 1999 to \$140,879,000 in 2000. The table below clearly demonstrates the diversification of our revenue streams as a percentage of total hospitality revenues.

Revenue Category

	2000	1999
Room revenue	64%	64%
Food and beverage sales	16%	17%
Other hotel revenues, including management, franchise, vacation ownership and tenant leases	20%	19%
Total hospitality revenues	100%	100%

Hotel Statistics

In 2000, revenue per available room ("RevPAR") increased 7.1%, from \$53.48 in 1999 to \$57.30, which exceeds the 3.7% growth for the year across the Canadian hotel industry according to Pannell Kerr Forster Consulting Inc. (Trends in the Canadian Hotel Industry - Highlights for the Year 2000). Royal Host increased average daily room rates ("ADR") and RevPAR by renovating and repositioning a number of hotels, thereby improving overall market position. These increases also resulted from superior yield management techniques at all of the hotels.

Hotel statistics for the year ended December 31,	2000	1999	% change
ADR	\$84.51	\$80.17	5.4%
Occupancy	67.8%	66.7%	1.6%
RevPAR	\$57.30	\$53.48	7.1%
Total available room nights (000's)	1,567	1,548	

Note 1: RevPAR is a function of average daily room rate and occupancy.

Note 2: The figures above reflect the 50% co-tenancy arrangement and, as a result, include only 50% of the operations of that property.

Note 3: 1999 results include the addition of 120 rooms at The Grand for six months.

Lease and Other Hospitality Revenue

Lease and other hospitality revenue increased by \$3,249,000 in 2000 versus 1999, primarily for the following reasons:

- Royal Host recognized a full year's revenues from the casino lease and other new tenant leases with the completion of the expansion at The Grand Okanagan Resort and Conference Centre ("The Grand") in June 1999.
- Royal Host managed the 27 hotels in Oregon, Washington and Alaska for a third party starting in March 1999. Royal Host recognized a full year's management fees in 2000 versus ten months in 1999.

Operating Income

Operating income improved to \$44,735,000 in 2000 from \$39,978,000 in 1999, an increase of 11.9%. Operating margins also improved from 30.9% in 1999 to 31.8% in 2000. This is a 2.9% increase in margin as management tightened its belt and was able to bring more of every revenue dollar down to the bottom line.

Capital Structure and Liquidity

As part of the Trust Indenture, Royal Host is required to maintain debt levels at less than 45% of Total Assets plus Accumulated Depreciation. As at December 31, 2000, the Royal Host ratio was 39%.

During 2000, Royal Host refinanced approximately \$98 million of its existing debt and replaced it with \$105 million of new debt. Approximately \$69 million of this new debt was locked in for seven and ten year terms. This substantially improved our balance sheet and reduced our short-term risk.

Subsequent to year-end, Royal Host further improved its balance sheet by raising an additional \$20 million of equity through a "bought" deal with a syndicate of underwriters. This equity will be used to reduce debt, upgrade and reposition certain hotel properties and for working capital and general purposes.

Assets

Hotel Assets and Capital Expenditure Program

In total, over the past three years Royal Host has invested \$52 million in its hotel assets. Capital projects have added 120 four-star guest rooms at The Grand, as well as a European-style spa and a 21,000 square foot, world class casino that is leased to a tenant. Renovations and upgrades have also been completed at the Hilton, London, Ontario, Travelodge Hotel Dixon Road (Toronto Airport) and Travelodge Ottawa West, including state-of-the-art computerized reservation and front-desk systems and the creation of executive-style floors. Royal Host completed these projects both on time and budget.

As a result of the debt refinancing and equity issued, Royal Host has additional funds available for future capital expenditures at several key hotel properties as part of our ongoing commitment to maintaining the quality of our hotels. These expenditures will also allow us to drive return on investment. In addition to the

Per Unit Cash Available for Distribution (Basic)



Total Hospitality Revenues



above mentioned funds raised, Royal Host is setting funds aside on a monthly basis for a number of its properties, to ensure that the quality of its assets are maintained in the future.

Other Assets

Other assets consist of long-term notes receivable relating to vacation ownership, investments and deferred financing fees that are capitalized and amortized over the life of the underlying mortgages and other debt. During 2000, a portion of notes receivable was sold to an outside party. It is our intention to continue to sell these notes on an ongoing basis.

Human Assets

In recognition of the importance of the Royal Host family of employees in the ongoing Royal Host success story, the Company has developed an employee stock purchase plan. Effective January 1, 2001, the Company will match 100% of the eligible key employees' investments in Royal Host up to 3% of the employee's base salary, to encourage employee ownership and commitment to Royal Host.

Risks and Uncertainties

Royal Host is subject to various risks in the normal course of business that could adversely affect the Trust's ability to make distributions to unitholders.

Seasonality

The hotel industry is seasonal in nature. Generally, hotel revenues are greater in the second and third quarters than in the first and fourth quarters of the calendar year. This seasonality causes quarterly fluctuations in revenues and profits and must be taken into account when reviewing and evaluating the Royal Host quarterly results and monthly distributions. Royal Host manages cashflows throughout the year in order to ensure that sufficient cash is available to meet all obligations during slower periods.

Economic Conditions

Hotel performance is affected by supply of hotel properties in Canada. This is dependent on current and expected growth of the economy, as well as business and consumer confidence. While these factors are external and uncontrollable, Royal Host operates to minimize their impact by adopting the following strategies:

- diversifying its existing hotel portfolio geographically across market segments thus lowering its exposure to regional economic variations
- acquiring properties in desirable locations where the acquisition costs are below replacement values
- acquiring properties with a history of stable cashflows that are at or above the Royal Host expected rate of return
- diversifying its sources of revenues by acquiring hotel management contracts and vacation ownership business

Operating Risk

In addition to the uncertainties relating to the overall economic environment, Royal Host faces normal operating risks associated with the hotel business. These risks include increases in operating costs due to inflation and other factors, significant dependence on business travelers and tourism, increases in energy costs and other expenses of travel, and adverse effects of general and local economic conditions. To mitigate these risks, Royal Host has developed strategies focusing on:

- ensuring consumer satisfaction through proactive rather than reactive measures. Royal Host ensures that the staff at its hotels are well trained to focus on guest satisfaction and improvement of their existing product to encourage higher occupancy levels than its local competitors
- building a broad and varied customer base, thereby reducing economic dependence on specific guest segments
- maintaining a high quality product by ensuring that its hotel portfolio is constantly renovated and managed at or above industry standard

- developing a specific sales program designed to attract a wide variety of customer segments, including innovative marketing concepts to attract new customers and a growing focus on e-business as a means to reach a broad customer base
- providing overall directions to ensure that all operating units are functioning within the parameters of Royal Host's objectives
- attempting to reduce the threat of increased energy and utility costs by entering into longer term supply contracts

Competition

Substantially all of the hotels are located in developed areas that include other hotel properties. The number of competitive hotel properties in a particular area could have a material adverse effect on occupancy and ADR of the hotels or at hotel properties acquired in the future. New, competing hotels may be opened in the Royal Host markets, which could materially and adversely affect hotel operations.

Environmental Risk

Under various federal, provincial and local laws and regulations, Royal Host may be liable for the costs of removal or remediation of certain hazardous or toxic substances on such property.

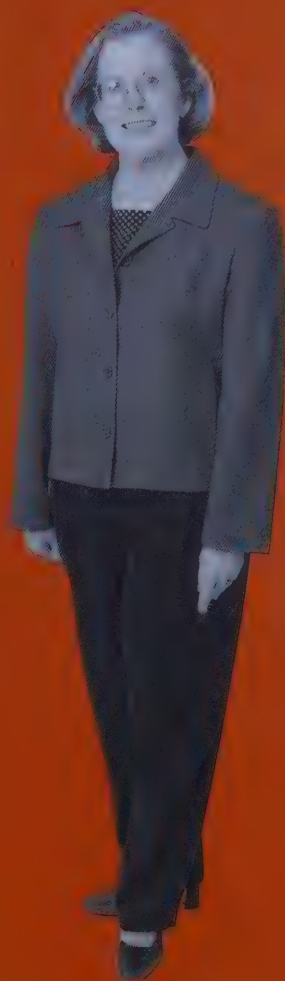
Environmental legislation in Canada has undergone major revisions that have resulted in environmental standards and compliance being more stringent and greater public consciousness. The Royal Host hotel portfolio is not subject to a high level of environmental risk, however the company takes this risk seriously and, under the current investment guidelines, all properties being acquired must have environmental audits conducted by an independent consultant.

Operational Opportunities for 2001

The year 2000 was a year where we built on our foundation in two ways. Within our core business of hotel ownership and management, we focused on cost control and operational efficiencies with the goal of improving operating margins and ultimately cash available for distribution to unitholders. We undertook initiatives for new business and focused on pushing the management team to leverage off our core strengths. We have laid a strong and solid foundation for continuing growth in 2001 and beyond.

[We are focused on cost control and operational efficiencies with the goal of improving operating margins and ultimately cash available for distribution to unitholders.]

Jane Nicholson
Corporate Controller



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Management of Royal Host Real Estate Investment Trust ("Royal Host") is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of the consolidated financial statements necessarily involves the use of estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information presented in the Annual Report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting controls which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, Royal Host recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further ensures the quality of the financial records through careful selection and training of personnel and the adoption and communication of financial and other relevant policies.

The Board of Trustees discharges its responsibilities with respect to the consolidated financial statements primarily through the activities of its Audit Committee, the majority of which is composed of trustees who are independent from Royal Host. This committee meets with management and with the Royal Host independent auditors to review Royal Host annual financial performance and to discuss audit, internal control, accounting policies and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Trustees.

The financial statements have been audited by Deloitte & Touche LLP, who were appointed by the Unitholders at the last Annual General Meeting of Unitholders. Their report is presented herein.

As signed by

Randy B. Royer

President and Chief Executive Officer

Calgary, Canada

March 16, 2001

As signed by

Peter Sikora

Chief Financial Officer

To the Unitholders of Royal Host Real Estate Investment Trust

We have audited the consolidated balance sheets of Royal Host Real Estate Investment Trust ("Royal Host") as at December 31, 2000 and 1999, and the consolidated statements of net earnings and cash available for distribution and cash flows for the years then ended. These consolidated financial statements are the responsibility of Royal Host's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Royal Host as at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants

Calgary, Canada

March 16, 2001

CONSOLIDATED BALANCE SHEETS

	<i>(in thousands of dollars)</i>	
As at December 31,	2000	1999
Assets		
Current Assets		
Cash and short-term investments <i>[Note 3]</i>	\$ 6,799	\$ 7,291
Accounts and notes receivable	12,320	8,055
Deposits and prepaid expenses	2,603	1,014
Inventories	2,903	2,706
Future income tax <i>[Note 2 (i)]</i>	1,470	—
	26,095	19,066
Capital Assets <i>[Note 5]</i>	332,916	347,300
Long-term Notes Receivable and Other Assets	4,604	4,180
	363,615	370,546
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	15,936	12,812
Current portion of mortgages and other debt <i>[Note 6]</i>	51,802	114,851
Current portion of capital leases <i>[Note 7]</i>	928	696
Distributions payable	1,874	—
Other current liabilities	2,013	3,503
	72,553	131,862
Mortgages and Other Debt <i>[Note 6]</i>	107,051	39,062
Capital Leases <i>[Note 7]</i>	2,205	1,995
Future Income Tax <i>[Note 2 (i)]</i>	1,885	—
Deferred Revenue	2,145	1,446
Equity <i>[Note 8]</i>	177,776	196,181
	363,615	370,546

Approved on behalf of the Board of Trustees:

As signed by

Randy B. Royer
Trustee

As signed by

Peter Sikora
Trustee

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF NET EARNINGS AND CASH AVAILABLE FOR DISTRIBUTION

(in thousands of dollars)

For the years ended December 31,	2000	1999
Hospitality Revenues		
Rooms	\$ 89,989	\$ 83,079
Food and beverage	23,023	21,873
Lease and other hospitality revenues	27,867	24,618
	140,879	129,570
Hospitality Expenses	96,144	89,592
Operating Income	44,735	39,978
Other (Income) and Expenses		
Interest income	(112)	(477)
Interest on mortgages and other debt	14,912	11,899
Trust administration	1,968	2,332
Capital and other taxes	(217)	610
Non-recurring acquisition costs [Note 11]	–	2,200
Future income tax recovery [Note 2 (i)]	(620)	–
Depreciation and amortization	21,932	20,678
	37,863	37,242
Net Earnings [Note 4]	6,872	2,736
Add: Depreciation and amortization	21,932	20,678
Deduct: Future income tax recovery	(620)	–
Cash Available for Distribution* [Note 4]	28,184	23,414

See accompanying Notes to Consolidated Financial Statements

*Before amounts relating to reserves, see Note 4

CONSOLIDATED STATEMENTS OF CASH FLOWS

	<i>(in thousands of dollars)</i>	
For the years ended December 31,	2000	1999
Cash Provided by (Used in)		
Operating Activities		
Net earnings	\$ 6,872	\$ 2,736
Items not affecting cash		
Depreciation and amortization	21,932	20,678
Future income tax recovery	(620)	—
Cash flows from operations	28,184	23,414
Increase in accounts and notes receivable	(4,265)	(2,570)
Increase in deposits and prepaid expenses	(1,589)	(305)
Increase in inventories	(197)	(511)
Increase in accounts payable and accrued liabilities	3,124	1,302
(Decrease) increase in other current liabilities	(1,490)	1,834
	23,767	23,164
Financing Activities		
Additions to mortgages and other debt	175	84,122
Principal repayments on mortgages and other debt	(4,250)	(69,411)
Net proceeds from debt refinancing	3,878	—
Issuance of trust units	—	10,006
Issuance of trust units under distribution reinvestment plan	—	17
Unit issue costs	—	(68)
	(197)	24,666
Investing Activities		
Capital expenditures	(4,924)	(29,321)
Increase (decrease) in long-term notes receivable and other assets	2,531	(862)
Increase in deferred revenue	699	591
	(1,694)	(29,592)
Equity Distributions	(22,368)	(25,589)
Net Change in Cash and Short-term Investments	(492)	(7,351)
Cash and Short-term Investments, beginning of year	7,291	14,642
Cash and Short-term Investments, end of year	6,799	7,291

See accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2000 and 1999

Note 1: **General Information**

Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") was created pursuant to the Declaration of Trust dated August 27, 1997. Royal Host is an unincorporated closed-end mutual fund trust established for the purpose of investing in hotel properties and hospitality businesses, under specified guidelines as defined under the Declaration of Trust.

Note 2: **Significant Accounting Policies**

[a] Basis of Accounting

The Royal Host accounting policies and standards of financial disclosure are in accordance with generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants ("CICA").

[b] Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses for the reported period. Actual results could differ from those estimates.

[c] Principles of Consolidation

These consolidated financial statements include the accounts of Royal Host and its wholly-owned subsidiaries, and the accounts of all partnerships and co-tenancy to the extent of the Royal Host proportionate interest in their respective assets, liabilities, revenues, expenses and cash flows. All significant inter-company transactions and balances have been eliminated.

[d] Revenue Recognition

Revenue is recognized upon performance of hotel and related services, and delivery of food and beverages. Revenue from prepaid vacations is recorded when the purchaser has complied with all major conditions of the sale, including the payment of the full purchase price or the arrangement of appropriate financing. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable which is estimated to be uncollectible. Certain portions of revenue from prepaid vacations are deferred until earned by Royal Host.

[e] Capital Assets

Hotel properties are stated at the lower of net book value or net recoverable amount. The net recoverable amount represents the undiscounted projected future net cashflow generated from the property throughout its useful life, including its residual value, and is intended to determine recovery of an investment and is not an expression of a property's fair market value.

Hotel properties are depreciated using the straight-line method over their estimated useful lives of 25 years.

Maintenance and repair costs are expensed against operations as incurred, while significant improvements, replacements and major renovations are capitalized to hotel properties. Furniture, equipment and certain improvements are depreciated on a straight-line basis over periods up to 10 years.

Properties under development consist of properties under construction and are recorded at the lower of cost, including pre-development expenditures, and net recoverable amount.

Goodwill comprises the unamortized balance of the excess of the Royal Host acquisition cost over the fair value of the identifiable net assets of Royco Hotels & Resorts ("Royco") and R.V.I. Holiday Limited Partnership ("RVI"). Goodwill is amortized on a straight-line basis over periods between 5 and 15 years.

Goodwill is regularly evaluated by comparing future net cash flows against the book value of goodwill to assess the recoverability of goodwill. Any permanent impairment would be written down in the period identified and charged against earnings.

[f] Capitalized Costs

Costs associated with the acquisition of the hotel properties are capitalized to the respective hotel property. These costs typically include realty agent commissions, property transfer taxes, legal fees, environmental studies, engineering, and other direct expenses.

The cost of hotel properties under development includes all expenditures incurred in connection with the activities of acquiring, developing and constructing these properties. These expenditures consist of all direct costs including debt interest and general and administrative.

[g] Inventory

Inventory consists of food, beverages, china, silverware, glassware, linen and general supplies. These items are stated at lower of cost or net replacement value, and are determined on a first-in, first-out basis.

[h] Financing Costs

Debt financing costs are deferred and amortized on a straight-line basis over the terms of the related loans.

[i] Income Taxes

Royal Host is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the Trustees intend to distribute all taxable income directly earned by Royal Host to its Unitholders and to deduct such distributions and designations for income tax purposes.

Effective January 1, 2000, Royal Host adopted the recommendations of Abstract 107 of the Emerging Issues Committee of the CICA regarding future income taxes which requires

recording a future tax amount for temporary differences existing in subsidiaries of the Trust. This accounting change has been applied retroactively without restatement. The impact of the change was to record a future tax liability and a charge to unitholders' equity at January 1, 2000 of \$1,035,000. Temporary differences consist primarily of loss carry-forwards and book versus tax values of capital assets.

(j) Unit Option Plan

Royal Host has a unit option plan as described in Note 8(d). No compensation expense is recognized for the plan when options are granted. Consideration received on exercise of options is credited to unitholders' equity.

Note 3: Reserved Cash

Included in cash is an amount of \$3,727,000 of reserved cash representing funds on deposit with lenders for future planned capital expenditures within the next 12 months. In December 2000, the Company filed a "Request for Release" of reserved cash in the amount of \$1,038,000 for capital expenditures to date. Subsequent to December 31, 2000, Royal Host has submitted "Requests for Release" of reserved cash on deposit for capital expenditures in the amount of \$502,000.

Note 4: Per Unit Computations

There were 20,267,412 trust units outstanding as at December 31, 2000 (20,267,412 - 1999). Per unit computations are based on the weighted average number of trust units outstanding for the year, after adjusting the net earnings and cash available for distribution for payments on the convertible debenture of \$1,760,000 (1999 - \$1,760,000) and payments on the redeemable partnership units of \$3,025,000 (1999 - \$1,946,000).

For the years ended December 31,	2000		1999	
	Basic	Fully diluted	Basic	Fully diluted
Net earnings (loss) per unit	0.10	anti-dilutive	(0.05)	anti-dilutive
Per unit cash available for distribution	1.15	1.10	1.02	0.94
Weighted average number				
of trust units (in thousands)	20,267	25,744	19,251	25,319

Per unit computations are based on the weighted average number of trust units outstanding during the year of 20,267,412 units (1999 - 19,251,185 units).

Under the Royal Host capital replacement reserve policy, 3% of total hotel revenue is deducted from cash available for distribution to allow for the upkeep and renovation of the hotel properties. This policy may be amended from time to time at the discretion of the Trustees. On this basis, the reserve provided for the year ended December 31, 2000 would have been \$3,671,000 (1999 - \$3,434,000). As Royal Host spent approximately \$6.6 million in 2000 (1999 - \$29 million) to renovate and reposition the hotel properties, the Trustees have determined that no reserve would be provided for 2000 and 1999.

Note 5: Capital Assets

(in thousands of dollars)	Accumulated		
	Gross Book Value	Depreciation and Amortization	Net Book Value
2000			
Land	37,303	—	37,303
Building	274,227	28,171	246,056
Furniture, fixtures and equipment	35,745	14,311	21,434
Paving and other	1,173	108	1,065
	348,448	42,590	305,858
Properties under development	1,457	—	1,457
Goodwill	34,276	8,675	25,601
	384,181	51,265	332,916
1999			
Land	37,303	—	37,303
Building	270,267	17,107	253,160
Furniture, fixtures and equipment	33,123	8,334	24,789
Paving and other	1,167	65	1,102
	341,860	25,506	316,354
Properties under development	1,475	—	1,475
Goodwill	34,276	4,805	29,471
	377,611	30,311	347,300

All hotel properties are wholly-owned by Royal Host except for one hotel property which represents less than 5% of total capital assets, and is jointly owned by Royal Host and the vendor. Pursuant to the Exchange Agreement dated September 11, 1998, the vendor has an option to exchange its 50% ownership interest for units of Royal Host. The valuation of such exchange is to be determined based on a specified capitalization rate and the units of Royal Host are to be priced based on a 20 day weighted average trading price per unit. This calculation is taken into consideration in the fully diluted per unit calculations in Note 4.

For discussion of capital replacement reserves in 2000 and 1999, see Note 4.

Properties under development include interest expense capitalized of \$66,000 (1999 - \$637,000). The Royal Host commitment to complete properties under development in 2000 is estimated at \$747,000 (1999 - \$2.4 million).

Note 6: Mortgages and Other Debt

(in thousands of dollars)	2000	1999
Mortgages and other debt secured by hotel properties	158,853	153,913
Less: Current portion	51,802	114,851
	107,051	39,062

Mortgages and other debt bear interest at rates ranging from 8.0% to 12.0% (1999 - 7.05% to 12.0%) with a weighted average year-end rate of 9.24% (1999 - 8.30%) and mature between 2001 and 2010. The mortgages and other debt are secured by fixed charges over specified hotel properties.

Financing charges are deferred and amortized over the term of the related debt. In 2000, \$931,000 was included in amortization (\$1,362,000 in 1999).

In 2000, Royal Host refinanced approximately \$98 million of the mortgages and other debt due in 2000. The existing debt was refinanced and replaced with approximately \$105 million of new debt. Principal repayments are as follows:

Years ending December 31 (in thousands of dollars)	
2001	51,802
2002	37,296
2003	3,119
2004	2,145
2005	2,345
Subsequent	62,146
	158,853

Included in amounts due in 2002 is an amount of \$35 million that is due in August 2001 but is extendable subject to certain conditions which Royal Host believes in the ordinary course will be met. Accordingly, this amount has been classified as long-term in nature.

Note 7: **Obligations Under Capital Leases**

The company has entered into various capital lease obligations to acquire computers and hotel furniture, fixtures and equipment. The present value of minimum lease payments under capital leases as of December 31, 2000 are as follows:

Years ending December 31 (in thousands of dollars)	
2001	1,222
2002	1,190
2003	971
2004	303
2005	35
Future minimum lease payments	3,721
Amounts representing interest	588
Present value of future minimum lease payments	3,133
Less: Current portion	928
Long-term obligation	2,205

Note 8: Equity

(in thousands of dollars)	2000	1999
Equity balance, beginning of year, as previously reported	146,681	159,579
Adjustment for future income taxes [Note 2(i)]	(1,035)	–
As restated	145,646	159,579
Net earnings	6,872	2,736
Issuance of trust units under private placement	–	10,006
Issuance of trust units under distribution reinvestment plan	–	17
Unit issue costs	–	(68)
Equity distributions on:		
Trust units	(19,457)	(21,883)
Redeemable partnership units	(3,025)	(1,946)
Interest on convertible debenture	(1,760)	(1,760)
	128,276	146,681
Convertible Equity		
Redeemable partnership units	27,500	27,500
Convertible debenture	22,000	22,000
	49,500	49,500
Equity balance, end of year	177,776	196,181

[a] Unit Capital

	Number of Units	(in thousands of dollars)
Balance, December 31, 1998	18,829,487	187,142
Issuance of trust units under private placement	1,435,530	10,006
Issuance of trust units under distribution reinvestment plan	2,395	17
Balance, December 31, 2000 and 1999	20,267,412	197,165

On September 16, 1999, Royal Host conducted a private placement consisting of 1,435,530 units issued at a weighted average unit price of \$6.97 for total proceeds of \$10,006,000.

[b] Distributions to Unitholders

Cash available for distribution for the year ended December 31, 2000 was \$28,184,000 (1999 - \$23,414,000) and distributions declared to Unitholders, excluding distributions on redeemable partnership units, aggregated \$19,457,000 (1999 - \$21,883,000) for the same period.

[c] Distribution Reinvestment Plan

Royal Host has established a Distribution Reinvestment Plan that is administered by its transfer agent and has reserved 500,000 units for issue under this Plan. For 2000, all Distribution Reinvestment Plan units have been purchased on the open market by the transfer agent.

[d] Unit Options

Royal Host has reserved 1,883,000 units under its unit option plan. As at December 31, 2000, Royal Host has unit options outstanding to certain directors, employees and consultants to purchase an aggregated total of 990,000 units (1999 – 990,000 units), ranging from \$10.00

to \$10.50 per unit (in 2000, the weighted average exercise price is \$10.03). These options expire on October 31, 2007 and on March 23, 2008. During 2000, no options were issued, exercised, or expired (1999 - 27,500 units expired).

[e] Redeemable Partnership Units

As consideration for the purchase of the Royco and RVI businesses, 1,706,998 redeemable partnership units were issued by a partnership managed by a wholly-owned subsidiary of Royal Host. A further 1,444,445 redeemable partnership units were issued effective January 1, 2000, pursuant to a clause in the purchase agreement requiring a minimum level of earnings in the period following the acquisition, which was met by the businesses.

Holders of redeemable partnership units ("Holders") are entitled to receive distributions from the partnership equivalent to the distributions paid by Royal Host to its Unitholders, commencing on January 1, 1999. Each partnership unit is redeemable by the Holders after January 1, 2000 at a cash price equal to the market value of a Royal Host unit, or at the option of Royal Host and subject to regulatory approval, one Royal Host unit or a combination thereof.

Under certain circumstances, including a change of control ("Trigger Event"), the Holders have the right to redeem the partnership units for cash proceeds of \$27.5 million. If the Trigger Event occurs after the issuance of the additional redeemable units but prior to January 1, 2004, then the Holders may redeem the then outstanding redeemable partnership units for cash, at the greater of \$9.00 per unit or the market price of the Royal Host units. Change in control is defined as ownership by any one entity or a group of related entities of more than 20% of the outstanding units of Royal Host.

For accounting purposes, the redeemable partnership units have equity characteristics and accordingly, they have been accounted for as such.

[f] Convertible Debenture

The convertible debenture bears interest at 8% per annum and is payable monthly, at Royal Host's option, in either cash or in equivalent units of Royal Host. In addition, upon maturity in 2003, Royal Host has the option to repay the debenture in either cash or in equivalent units of Royal Host.

Based on certain conditions, the debenture is convertible at \$10.00 per trust unit to September 30, 2001 or \$11.00 per trust unit for the period from October 1, 2001 to September 30, 2003. For accounting purposes, the debenture has equity characteristics and accordingly, it is accounted for as such.

[g] Employee Unit Purchase Program

During the year, Trustees approved the issue, subject to regulatory approval, of up to 400,000 units from treasury for an employee unit purchase program. Under this program, certain Royal Host employees will be eligible to finance the purchase of units from treasury at \$5.80 per unit, using interest-bearing employee loans from Royal Host and a brokerage margin account. Distributions otherwise payable on the units will be used to retire the loans receivable from the employees.

Note 9: Commitments

The Company has entered into long-term supply arrangements with two electrical utility companies and two natural gas providers to supply the Company with some of its electricity and natural gas needs for certain Alberta and Ontario properties. The electricity contracts are for a term of 5 years at a blended rate of approximately 5.7 cents per kilowatt hour for annual usage of approximately 18.2 million kilowatt hours. The natural gas contracts are for terms of 3 and 5 years, at a blended rate of approximately 17 cents per cubic metre, excluding delivery, on annual usage of approximately 2.9 million cubic metres. The Company is not required to guarantee usage levels for any contracts.

Note 10: Lease and Other Hospitality Revenues

Lease and other hospitality revenues include rental income from one hotel property that is leased to the previous owner for a fixed fee of \$2,015,000 per annum. The lease is renewable at the option of the tenant for a further three additional 5 year terms commencing October 31, 2002 at an amount equal to the base lease adjusted by the consumer price index. The lease may be terminated if the property is sold by Royal Host upon due notice along with payment of a penalty calculated in accordance with the lease agreement.

Note 11: Non-Recurring Acquisition Costs

In 1999, Royal Host recorded a \$2,200,000 (\$0.11 per unit, basic) non-recurring charge against income, relating to the Canadian Hotel Income Properties REIT acquisition attempt.

Note 12: Franchise Agreements

Under the terms of the hotel franchise agreements expiring at various dates commencing October 31, 2007 through to March 26, 2019, annual payments for franchise expenses (including fees, reservation and advertising services) are due for 18 of the 36 hotels (1999 - 18 of 36 hotels). In 1999, nine hotels were converted to the Travelodge brand for which Royal Host is the master franchisor in Canada (there were no hotels converted to the Travelodge brand in 2000). The franchise royalties are computed based upon percentages of defined revenues and amounted to \$1,573,000 for the year (1999 - \$1,495,000).

Note 13: Operating Leases

Certain property and equipment are leased under operating lease agreements expiring at varying intervals. The following is a 5 year schedule for future minimum rental payments required under these leases as at December 31, 2000:

Years ending December 31 (in thousands of dollars)	
2001	1,252
2002	879
2003	434
2004	285
2005	112
Total future minimum rental payments	2,962

Note 14: Risk Management

Fourteen

Royal Host's key financial risk exposures include credit risks arising from receivables from corporate accounts and amounts owed by purchasers of prepaid vacations, and interest rate risk arising from fluctuations in interest rates.

Credit risks are minimized, as amounts due from any one debtor are not significant and routine credit assessments are carried out prior to credit being granted. The majority of accounts receivable are from prepaid vacation owners and are secured by the prepaid vacations purchased.

Interest rate risk is continually monitored and managed through limiting the amount of variable rate debt as well as the total amount of debt. The amount of variable rate debt aggregated \$40,060,000 or 25% of the Royal Host total debt portfolio as at December 31, 2000 (\$99,627,000 or 63% of the Royal Host total debt portfolio as at December 31, 1999). Variable rates range from prime plus 3/4% to prime plus 2% (prime to prime plus 3% at December 31, 1999).

Note 15: Fair Values

Fifteen

Current assets and liabilities approximate their carrying values at December 31, 2000 due to their short-term nature. The fair values of the non-current portion of mortgages and other debt, and convertible equity instruments are as follows:

(in thousands of dollars)	Carrying Values	Fair Values
Mortgages and other debt	107,051	100,754
Capital leases	2,205	1,986
Redeemable partnership units and convertible debenture	49,500	46,286

Fair value estimates are made at a specific point in time based on relevant market information. These are estimates and involve uncertainties and matters of significant judgment and cannot be determined with precision. Changes in assumptions and estimates could significantly affect fair values.

Note 16: Reclassification

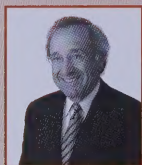
Sixteen

Certain prior year's figures have been reclassified to conform with the presentation adopted for 2000.

Note 17: Subsequent Events

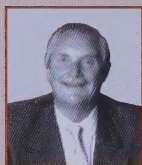
Seventeen

On March 27, 2001 pursuant to a prospectus, Royal Host issued 3,390,000 units for net proceeds of \$19,000,000. The funds are to be used to reduce debt and for renovations.



Chairman – Ron Ghitter Q.C. (1) (2) (3) (4)

Ron Ghitter is an officer and principal shareholder of Certus Developments Inc., an operating real estate development company. He is a successful lawyer, business executive and consultant, and has served on a number of corporate boards of directors. Ron has more than 25 years of experience in real estate development law and is a former Executive Vice President Development for Trizec Corporation. He is widely known and respected for his contribution to public service, including seven years as a member of the Senate of Canada.



Dennis Hearn, FCA (1) (2)

Dennis Hearn is Chairman, MAG International Communications Ltd. He is the former Chairman, President and Chief Executive Officer of Forte Inc. and Group Managing Director and Deputy Chief Executive of Forte PLC, a major worldwide hospitality company. Earlier in his career, Dennis was an Executive Director of consulting and supermarket companies. He is a chartered accountant, formerly in private practice with Peat Marwick Mitchell & Co.



Executive Vice Chairman – Terrance Royer, MBA (2) (3) (4)

Terrance Royer is the Executive Vice Chairman of Royal Host. He has guided Royal Host from inception to becoming one of Canada's leading international hotel management and franchising companies. Terrance has more than 25 years of experience in the hotel business. He has a reputation as a leader and an innovator having guided Relax Hotels and Resorts, Canada's first economy hotel chain, from inception to prominence.



Alvin G. Poettcker (1) (2) (3) (4)

Al Poettcker is Chief Executive Officer, UBC Properties Inc. From 1984 to 1996, he served as president at several real estate companies, including Redekop Properties Inc., Bentall Development Inc., one of Western Canada's largest property and development companies, and Barbican Properties Inc., a company specializing in residential development and workouts of distressed income properties.



Gordon Pridham (3) (4)

Gord Pridham has more than 20 years experience in Canadian and international financial services, and has managed the Investment Banking Group at Midland Doherty, and Deutsche Morgan Grenfell. More recently, he was Director, Investment Banking for Research Capital and Raymond James. He has led many significant public real estate financings and advisory agreements in recent years.



Randy Royer

Randy Royer is the President and Chief Executive officer of Royal Host. Randy was a driving force behind the creation and launch of the Royal Host REIT. He has over 20 years of experience in hotel planning, development and construction and hotel portfolio asset management across Canada and the United States. He has taken 30 hotels from market identification and site selection through market and financial analysis, to design, construction and turnover to the operator. Randy's hotel business experience ranges from the development of budget properties to the master planning of a 50-acre city-centre, lakefront resort community.



Peter Sikora, MBA

Peter Sikora is the Chief Financial Officer of Royal Host. Peter has over 15 years of planning, development, finance and hotel portfolio asset management experience in the hotel industry. He previously held management positions with a Canadian chartered bank.



Greg Royer – Ex-officio

Greg Royer is President of RVI Holiday Limited Partnership, and Royco Investments. Greg has over 25 years of experience in the hotel and hospitality industry, both as an owner and an operator. Over the years, he has operated a national hotel chain in Canada, and established one of Canada's largest vacation and timeshare companies. Greg has also served on numerous boards in the hotel timeshare and hotel franchise industry, including Canadian Resort Development Association, Travelodge International Marketing and Calgary Tourism and Convention Bureau. Currently he is a director on a number of public and private boards.

- (1) Member of the Audit Committee
- (2) Member of the Investment Committee
- (3) Member of the Compensation Committee
- (4) Member of the Governance Committee

Officers of Royal Host REIT

Randy B. Royer

President and Chief Executive Officer

Peter Sikora

Chief Financial Officer

CORPORATE INFORMATION

Corporate Office

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Fax: (403) 259-8580
www.royalhost.com

Auditors

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Suite 3000, Scotia Centre
700 Second Street SW
Calgary, Alberta
T2P 0S7

Registrar and Transfer Agent

Computershare Trust Company of Canada
PO Box 1542, Station B
Montreal, Quebec
H3B 3L2

Distribution Reinvestment Plan

Unitholders are invited to participate in our Distribution Reinvestment Plan, whereby monthly distributions are automatically reinvested in Royal Host units. The plan is available to all Canadian residents who are registered unitholders. For information, please contact our Registrar and Transfer Agent.

Annual General Meeting

The annual general meeting of unitholders will be held on June 11, 2001 at 10:00 a.m. in the TSE Conference Centre, TSE Auditorium, The Exchange Tower, 130 King Street West, Toronto, Ontario M5X 1J2

Stock Exchange Listing

Royal Host units trade on The Toronto Stock Exchange under the symbol RYL.UN

Royal Host: 5940 Macleod Trail South, Suite 500, Calgary, Alberta, Canada T2H 2G4